



PRIME MINISTER

**COMMUNITY CHARGE TRANSITIONAL RELIEF**

In my minute of 6 September I drew attention to the present political concern among areas that will have to contribute to the safety net. But I also pointed out that there was a more substantial problem still to emerge when the impact of the Community Charge on individuals becomes clear.

2. In our discussion on 14 September we concentrated mainly on this problem of individuals who will lose through the introduction of the Community Charge, and how we might help them. We concluded that modifications of the rebate scheme were probably not the right way to tackle this, and that instead we should consider the possibility of a scheme of Transitional Household Relief.

3. The Cabinet Office Paper confirms that the number and the size of losses faced by individuals does indeed constitute a substantial political problem. This problem is bound to come more and more to the fore when individuals begin to receive their actual charge bills, and the losses are felt in people's pockets. 8.5 million individuals and couples losing more than £2 a week cannot be ignored.

4. In the light of this analysis it would clearly be a mistake to concentrate primarily or solely on improving the area safety net to deal with the resentment felt among our supporters about contributions to the area safety net, while leaving the potentially bigger problems of individual losers still to emerge next spring. This point is underlined by the Cabinet Office analysis which shows that the area safety net and any possible modifications to it would not do very much to reduce the total number of individual losers losing more than £2 a week.



this is a key assertion - is it right?  
RPEG

5. In my view, therefore, we must now urgently consider a substantial and broadly based scheme of individual or household relief. It must be a general scheme because there is no satisfactory basis for discriminating between one group of losers and another. And the level of protection must be adequate. £2 per week or so for individuals or couples (with the possibility of higher losses coming through where the authority overspend) seems to me about the maximum loss we should allow. The costings in the paper suggest that schemes of this kind could cost £1 billion or more which is, of course, very substantial. But I think we have to recognise that if we decide to pursue such a scheme instead of pursuing Exchequer funding of the area safety net (assuming there are insufficient funds to do both) we must have a scheme that costs at least as much as Exchequer funding of the safety net (£650 million) in order to satisfy our supporters that our response has been adequate.

6. It is, of course, very late in the day for introducing a new scheme of Transitional Relief, and we must recognise in doing so that there are dangers of causing severe administrative confusion, and delays in collecting the charge in some areas. We shall also need legislative cover for any scheme in order to avoid challenge. For both reasons there must be an overwhelming presumption in favour of operational simplicity in drawing up the scheme, so that it can be legislated in the overspill session and implemented quickly. The scheme must also be simple to understand, and to explain and justify to all concerned.

#### Scheme of Household Relief

7. I believe that the general scheme of household relief on the lines of Option 1 in the officials' paper is the only one that could meet these criteria. There are four points here:

- i. Local authorities should administer the scheme. At best a centrally run scheme could not do any better than a local scheme because it would depend on co-operative working with individual authorities to obtain information about the rate and community charge position of individuals. And if it proved impossible to set up a central scheme quickly enough (involving several thousand staff, computers, accommodation, etc) a central scheme could be an administrative disaster.



ii. Local authorities are already hard pressed in preparing for Community Charge and other changes next April, and will not be able to cope with anything but the simplest addition to the existing scheme. In particular we should avoid requiring them to collect new data on individuals about their personal circumstances, and should avoid making them deal with millions of applications for relief. Relief that could in principle be determined by a simple calculation with data which authorities already have is much to be preferred. Efficient authorities should then be able to issue abated bills from the outset before April 1 (though we could not establish this for certain until we can discuss with the authorities themselves and with computer firms etc.)

*note the possibility  
of sending out  
bills late and  
bringing forward  
payments of Excesses*

*9th. iii.  
RAC6*

The household basis of comparison is simplest because authorities already have the addresses of all domestic properties on their rating list, and would simply compare the gross rate bill in 1989/90 for each address with the aggregate community charges (on specified spending assumptions) for all the people living at that address.

iv. The calculation should be done on a gross basis (ie before taking account of community charge benefit) because this enables two fairly easily ascertainable figures (the gross rate bill for the property, and the gross community charges for each individual in it) to be compared. This avoids getting into the complications of assessing and comparing the post-benefit liabilities in each year, which would be much harder for authorities to check and are continually changing as individual circumstances change. The ordinary income related community charge benefit entitlements for poorer people would then be calculated after transitional relief. (The cost of benefits and the number of applicants would be reduced significantly by this approach.)



8. Preliminary analysis suggests that such a scheme would need two or three clauses of primary legislation which could be added to the Local Government and Housing Bill in the overspill of the present session. The details would then be spelt out in the statutory scheme made as soon as we could manage in the new session.

9. The cost of such a scheme will depend critically on the precise parameters chosen for measuring an individual's loss, and on the maximum loss we allow to come through. I would propose that we should compute a household's reckonable loss as being the difference between:

- i. The 1989/90 rate bill for the property occupied by the household;
- ii. The 1990/91 Community Charges for all the persons in the household, assuming authorities budgeted in line with the settlement's spending assumption, ie 3.8% above 1989/90 budget. This means that households would not be protected against losses arising because authorities overspend the settlement's spending assumption. This would enhance accountability, and avoid encouragement of overspending.

*a good point.  
RCC.*

10. As to the degree of protection, I would propose:

- i. One and two person households should only bear a maximum of £2 a week reckonable losses, and should be given relief in respect of any loss above that amount.
- ii. For larger households an additional £3 a head loss should be allowed to come through for the household for each additional Community Charge payer.

11. Once the total relief for the household had been calculated it would be shared equally between each member of the household so as to reduce their Community Charge liability by the same amount. The relief would need to be financed by 100% Exchequer grant so as not to disturb the rest of the settlement proposals announced on 19 July.



### Costs

12. These parameters are slightly different from those shown in option 1 of the officials' paper, but on the same basis of estimation would produce the following costs and case-load:

Cost £M	Households getting relief (000s)	Adults getting relief (000s)
1220M (net of a reduction of £370M in benefit bills)	6,280	14,300

13. This is a substantial cost. Obviously one could seek to reduce the cost by raising the thresholds to allow households to meet larger losses. But in considering this we should bear in mind the following points:

- i. Many charge payers will in any case be meeting additional losses of up to a £1 a week or more as a result of authorities spending more than 3.8% above their last year's budgets.
- ii. The 1988 transitional relief for the housing benefit changes allowed £2.50 per head to come through as the maximum loss.

Bearing in mind these points, I think we should be cautious about increasing the thresholds significantly above what I have suggested.

14. Treasury colleagues may be concerned that a high level of expenditure on household relief would feed through into extra expenditure by local authorities. But since the relief would only go to protecting individual losers it would not reduce general community charge levels, and would not I believe have much effect in prompting local authorities to



increase their spending more than they would have done otherwise. If that is right, a decision to spend money in this way on keeping down community charge levels could be seen more as an issue of taxation policy (lowering community charge in preference to some central tax) rather than as a bid for spending of extra resources. (Indeed until the introduction of the new planning total next April a decision to increase grant in this way would not have counted as an increase in spending at all -it would have been treated as a change in a financing item.)

### The Area Safety Net

15. If colleagues are persuaded that we ought even at this late stage to introduce a scheme of transitional household relief on this basis, there remains the question of what to do about the area safety net. Assuming we do not pursue Exchequer funding of the present area safety net as well as a general scheme of household relief we have two main choices:

- i. Maintain the 19 July area safety net proposals alongside the household relief scheme, perhaps with minor modifications;
- ii. Abolish the area safety net altogether, thus allowing all the gains to come through in gaining areas and removing the need for contributions to the safety net, but at the price of big losses in losing areas, with high community charges there.

16. Abolition of the area safety net would increase the number of individual losers needing the protection of the household relief scheme, but only to a small extent. It would add an extra 400,000 households to the number needing protection, and £230M to the cost of the household relief scheme. It would have enormous advantages in removing all the pressure from our own side for abolition of contributions, and would immediately increase the accountability of the community charge by removing the confusing safety net adjustment from individual community charge bills.



17. There is perhaps some risk that abolition would lead to higher spending in the shire areas that would benefit from this change, but we could exert strong political pressure through party channels to resist this pressure. There is also the problem that abolition of the safety net would result in very high community charge levels in some of the losing areas, and would increase the number of individual losers in those areas very substantially. But provided we set the parameters of the household relief reasonably generously these losses will be contained to reasonable levels in most areas. The less generous the interim household relief, the more difficult it would be to remove the safety net.

18. The problem of very large losses and very high community charges is, however, more severe in a few authorities, particularly London. A few of these authorities will be faced with increases in the average burden on their charge payers of up to 100% before relief, and community charge bills over £500. The most serious cases are Greenwich (£246 charge on settlement spending assumptions with the safety net, £492 without the safety net); Tower Hamlets (£240 with the safety net, £513 without); Wandsworth (£175 with the safety net, £334 without); Barnsley (£221 with the safety net, £376 without); Kirklees (£217 with the safety net, £334 without). Colleagues may think there is therefore a case for keeping a modest area safety net to protect against area losses of more than £100 a head. This would cost £160 million, and would protect 22 authorities from excessive losses of more than £100 a head. We should need to complement any such proposals with vigorous charge capping in high spending areas, again mostly in London and the metropolitan areas.

19. We must also consider what to do about the two specific grants we announced on 19 July (the grant for the new Education Authorities in Inner London, and the grant for low rateable value areas - the "Pendle" scheme). I believe that both of these schemes have now built up political expectations in the areas that will benefit, and we could not now afford to drop them. We should therefore keep the Inner London grant as it is, and adapt the low rateable value scheme appropriately.

### Conclusion

20. In summary my own recommendations are:

- i. Establish a system of transitional household relief on the basis I have described above.



- ii. Abolish the area safety net, but with the possibility of a much smaller scheme financed by the Exchequer to protect a few of the areas losing most.

21. Proposals on these lines will meet the present criticisms from our supporters and those that are likely to emerge next spring. We shall of course face criticism from the Opposition for changing course, and very severe criticism from the local authorities for introducing such a major alteration to the system so late in the day. But it will be better to ride out these criticisms than to face rebellion in our own party, or unmanageable criticism on the door step next spring. We shall also need to provide generous help to local authorities in respect of their administrative costs in setting up and operating the scheme.

22. If colleagues agree this general approach on 28 September, I could circulate more detailed proposals early next week. Time is absolutely critical, and we should need to announce the changes very quickly, and to proceed very swiftly thereafter with the necessary legislation, regulations and detailed implementation.

23. We have not so far considered Wales and Scotland. In principle, the approach I am suggesting here could be readily applied to Wales. Scotland is more difficult, and we should need to consider urgently whether, when and how any comparable assistance could be given north of the border.

24. I am copying to Geoffrey Howe, Nigel Lawson, Norman Lamont, Kenneth Baker, Tony Newton and Sir Robin Butler

A handwritten signature in blue ink, appearing to be 'C.P.'.

C.P.  
26 September 1989